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GAIN Report

Global Agricultural Information Network

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India Moves a Step Closer to FDI in Multi-brand Retail

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Approved By:

David Williams

Prepared By:

Shubhi Mishra

Report Highlights:

On June 22, 2011, the Government of India (GOI's) Committee of Secretaries (COS) agreed to allow global retail chains a majority shareholding in their Indian operations. The COS, however, felt there is a need to specify conditions before a final go ahead is given to the proposal which, is yet to be submitted to the cabinet for approval.

General Information:

On June 22, 2011, the GOI moved a step closer to allowing majority Foreign Direct Investment (FDI) in multi-brand retail. The COS's decision comes five years after India allowed 51 per cent FDI in single-brand retail and 100 per cent FDI in wholesale retail. The proposal will now move to the Cabinet for approval, where the cabinet committee will take a final decision on caveats to be imposed and the level of FDI to be allowed.

Investment Likely with Certain Limitations:

After long five years of debating the COS unanimously agreed to allow global retail chains a majority shareholding in Indian operations. The move would likely allow investors a controlling 51 percent but is likely to come with special provisions, including a requirement that foreign firms invest at least \$100 million limit large-format operations to cities with over one million people. The COS also suggested that a percentage of FDI should be spent towards building back-end infrastructure, logistics or agro processing.

The COS also stated that new retail operations should not impinge on the integrity of the Public Distribution System (PDS) which provides a food safety net to vulnerable sections of society. To ensure that the prime objective of the PDS system is not weakened and buffer stocks of essential commodities are maintained at desired levels, the government might reserve the first right of procurement. Reportedly, the regulation will require investors to source at least 50 percent of their products from small and medium enterprises. Global retailers such as Wal-Mart Stores Inc., Carrefour SA, Tesco Plc and Metro have already established a presence in India's wholesale market and stand ready to move relatively quickly to build a retail presence and bring their expertise to India's potentially lucrative but chaotic retail sector.

Indian Retail Scenario:

A modern food retail sector in India is just beginning to develop and accounts for just one percent of retail sales. Nearly all food sales take place in the traditional or "unorganized" sector comprised of small neighborhood stores known as kirana stores. As large Indian companies have started investing in the food retail sector, there has been significant growth over the last five years. Notwithstanding the global economic slowdown, large retailers see great potential for the future growth of this sector. With the growing middle class, increasing urbanization, increasing investment to transform the food retail sector, increasing awareness of international food products, and a growing number of restaurants and fast food chains, India is slowly emerging as a market for high value agricultural products. For more detailed information on Indian Retail Food Sector and Indian Market please refer to our GAIN report: [RETAIL FOOD SECTOR](#) and [EXPORTER GUIDE ANNUAL](#)

Going Forward:

The caveats likely reflect the current governing alliance's incremental approach, given continued opposition from the minority Bhartiya Janta Party (BJP); small traders and NGO's that fear adverse impact on small traders and neighborhood stores. An interministerial group set up by the Prime Minister have backed FDI in multi-brand retail in the hope that it will help to moderate the high level of food inflation in India and develop needed infrastructure like cold storage, warehouses and

laboratories. The final policy might include a condition allowing individual states to allow or block the investments and this might limit the possible options for the international retail chains. Final approval of the policy could take several more months.

The full text of current FDI policy is available at: [CONSOLIDATED FDI POLICY](#)

Please note: The GOI has not yet released any official notification of the COS decision.